

#### § 1.9001-4

#### 26 CFR Ch. I (4-1-01 Edition)

the taxpayer on that date is \$4,195, determined as follows and in accordance with this section:

(i) Asset account:	
Unadjusted cost on January 1, 1943 .....	\$10,000
Less:	
Adjustment for abnormal retirement .....	\$1,500
Adjustment for normal retirement .....	1,000
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	2,500
Balance as of January 1, 1955 ....	<hr/> 7,500
(ii) Credits to reserve for depreciation:	
Entire terms-letter reserve as of January 1, 1943 .....	3,000
Depreciation allowable under terms-letter from January 1, 1943, to December 31, 1954 .....	2,100
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Total credits .....	5,100
(iii) Charges to reserve for depreciation:	
Part of terms-letter reserve applicable to property abnormally retired on December 31, 1954 .....	450
Depreciation applicable to property abnormally retired and allowable from January 1, 1943, to December 31, 1954 .....	345
Adjustment for normal retirement .....	1,000
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Total charges .....	1,795
(iv) Balance in reserve for depreciation:	
Total credits .....	5,100
Total charges .....	1,795
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Balance as of January 1, 1955 ....	3,305
(v) Adjusted basis of property:	
Balance in asset account .....	7,500
Balance in reserve for depreciation ....	3,305
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Adjusted basis as of January 1, 1955 .....	4,195

#### § 1.9001-4 Adjustments required in computing excess-profits credit.

(a) *In general.* Subsection (f) of the Act provides adjustments required to be made in computing the excess-profits credit for any taxable year under the Excess Profits Tax Act of 1940 (54 Stat. 975) or under the Excess Profits Tax Act of 1950 (64 Stat. 1137). These adjustments are set forth in paragraphs (b) and (c) of this section, and they shall apply notwithstanding the terms-letter.

(b) *Equity invested capital.* (1) Pursuant to subsection (f)(1) of the Act, in determining equity invested capital for any day of any taxable year under section 458 (relating to the Excess Profits Tax Act of 1950) or section 718 (relating to the Excess Profits Tax Act of 1940) of the Internal Revenue Code of 1939,

the accumulated earnings and profits as of the changeover date, and as of the beginning of each taxable year thereafter, shall be reduced by the depreciation sustained before March 1, 1913, on all retirement-straight line property held on March 1, 1913, by the taxpayer or a predecessor for which cost was or is claimed as basis and which was held on the changeover date by the taxpayer or a predecessor.

(2) For the computation of accumulated earnings and profits in determining equity invested capital, see 26 CFR (1941 Supp.) 30.718-2, as amended by Treasury Decision 5299, approved October 1, 1943, 8 FR 13451, C.B. 1943, 747 (Regulations 109); 26 CFR (1943 Cum. Supp.) 35.718-2 (Regulations 112); and 26 CFR (1939) 41.458-4 (Regulations 130).

(c) *Equity capital.* (1) Pursuant to subsection (f)(2) of the Act, in determining the adjusted basis of assets for the purpose of computing equity capital for any day under section 437(c) (relating to the Excess Profits Tax Act of 1950) of the Internal Revenue Code of 1939, the basis of the assets which enter into the computation shall also be reduced by:

(i) Depreciation sustained before March 1, 1913, on all retirement-straight line property held on March 1, 1913, by the taxpayer or a predecessor for which cost was or is claimed as basis and which was:

(a) Retired before the changeover date by the taxpayer or a predecessor, or

(b) Held on the changeover date by the taxpayer or a predecessor and also held as of the beginning of the day for which the equity capital is being determined; and

(ii) All depreciation applicable to the assets which enter into the computation and allowable under the terms-letter for all periods on and after the changeover date and before the taxable year for which the excess-profits credit is being computed.

(2) The adjustment required to be made by subparagraph (1)(i)(a) of this paragraph as of the beginning of the day for which the equity capital is being determined shall be made in accordance with the conditions and limitation described in paragraph (b)(2) of § 1.9001-2.

(3) For the determination of equity capital under section 437(c) of the Internal Revenue Code of 1939, see 26 CFR (1939) 40.437-5 (Regulations 130).

DEALER RESERVE INCOME  
ADJUSTMENT ACT OF 1960

**§ 1.9002 Statutory provisions; Dealer Reserve Income Adjustment Act of 1960 (74 Stat. 124).**

SECTION 1. *Short title.* This Act may be cited as the "Dealer Reserve Income Adjustment Act of 1960".

SEC. 2. *Persons to whom this Act applies.* This Act shall apply to any person who, for his most recent taxable year ending on or before June 22, 1959:

(1) Computed, or was required to compute, taxable income under an accrual method of accounting.

(2) Treated any dealer reserve income, which should have been taken into account (under the accrual method of accounting) for such taxable year, as accruable for a subsequent taxable year, and

(3) Before September 1, 1960, makes an election under section 3(a) or 4(a) of this Act.

SEC. 3. *Election to have section 481 apply—(a) General rule.* If:

(1) For the year of the change (determined under subsection (b)), the treatment of dealer reserve income by any person to whom this Act applies is changed to a method proper under the accrual method of accounting (whether or not such person initiated the change),

(2) Such person makes an election under this subsection, and

(3) Such person does not make the election provided by section 4(a),

then, for purposes of section 481 of the Internal Revenue Code of 1954, the change described in paragraph (1) shall be treated as a change in method of accounting not initiated by the taxpayer.

(b) *Year of change, etc.* In applying section 481 of the Internal Revenue Code of 1954 for purposes of this section, the "year of the change" in the case of any person is:

(1) Except as provided in paragraph (2), the first taxable year ending after June 22, 1959, or

(2) The earliest taxable year (whether the Internal Revenue Code of 1954 or the Internal Revenue Code of 1939 applies to such year) for which:

(A) On or before June 22, 1959:

(i) The Secretary of the Treasury or his delegate issued a notice of deficiency, or a written notice of a proposed deficiency, with respect to dealer reserve income, or

(ii) Such person filed with the Secretary or his delegate a claim for refund or credit with respect to dealer reserve income, and

(B) The assessment of any deficiency, or the refund or credit of any overpayment, whichever is applicable, was not, on June 21, 1959, prevented by the operation of any law or rule of law.

For purposes of this section, section 481 of such Code shall be treated as applying to any year of the change to which the Internal Revenue Code of 1939 applies.

SEC. 4. *Election to have section 481 not apply; payment in installments—(a) General rule.* If a person to whom this Act applies makes an election under this subsection, then for purposes of Chapter 1 of the Internal Revenue Code of 1954 (and the corresponding provisions of prior law) a change in the treatment of dealer reserve income to a method proper under the accrual method of accounting shall be treated as not a change in method of accounting in respect of which section 481 of the Internal Revenue Code of 1954 applies. Any election under this subsection shall apply to all taxable years ending on or before June 22, 1959 (whether the provisions of the Internal Revenue Code of 1954 or the corresponding provisions of prior law apply), for which the assessment of any deficiency, or for which refund or credit of any overpayment, whichever is applicable, was not, on June 21, 1959, prevented by the operation of any law or rule of law.

(b) *Election to pay tax in installments—(1) Eligibility.* If the net increase in tax (as defined in paragraph (2)) which results solely from the effect of the election provided by subsection (a) exceeds \$2,500, then the taxpayer may elect (at the time the election is made under subsection (a)) to pay in two or more (but not to exceed 10) equal annual installments any portion of such net increase which (on the date of such election) is unpaid.

(2) *Net increase in tax defined.* For purposes of this section, the term "net increase in tax" means the amount (if any) by which:

(A) The sum of the increases in tax (including interest) for all taxable years to which the election applies and which is attributable to the election, exceeds

(B) The sum of the decreases in tax (including interest) for all taxable years to which the election applies and which is attributable to the election.

For purposes of this paragraph, interest for the period before the date of the election shall be computed as provided in Chapter 67 of the Internal Revenue Code of 1954 (or the corresponding provisions of prior revenue laws).

(c) *Due date for installments.* If an election is made under subsection (b), the first installment shall be paid on or before the date prescribed by section 6151(a) of the Internal Revenue Code of 1954 for payment of the tax for the taxable year in which the election was made, and each succeeding installment